

ICAS Webinar

**Making Tax
Digital for
Income Tax:
Get your
practice ready**

Thursday 26 September 2024



**Ethical
Leadership
since 1854**

Your experts for today



Craig Ogilvie

MTD Programme Director

HMRC



Lenny Barry

MTD Programme Support

HMRC

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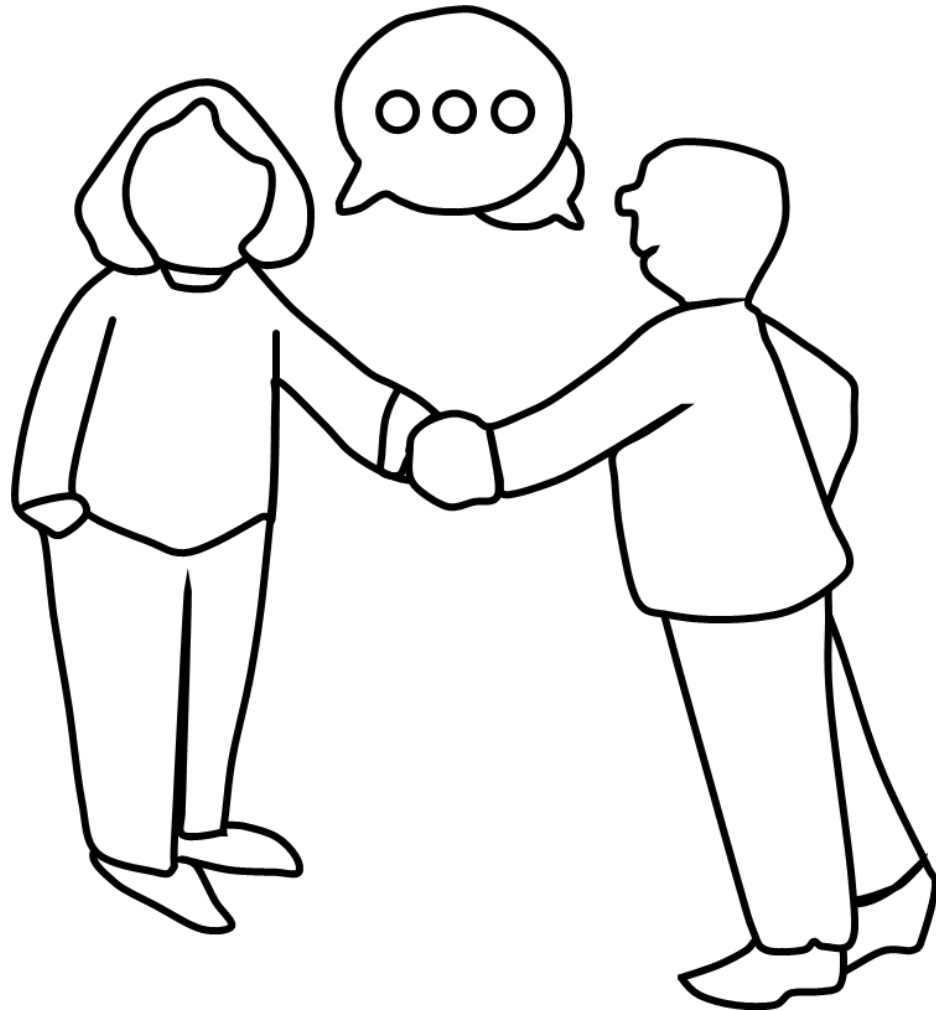
**Ethical
Leadership
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Making Tax Digital for Income Tax



HM Revenue
& Customs





Welcome

Craig Ogilvie

MTD Programme Director



Today's Agenda

- 1) MTD for Income Tax – Overview and update**
- 2) Testing MTD for Income Tax - How to get involved**
- 3) Q&A**

Introduction

Making Tax Digital for Income Tax will require self-employed individuals and landlords to **keep digital records and send simple quarterly updates to HMRC.**

These changes will help to:

- 1. reduce the chance of customers making errors**, supporting business productivity;
- ensure **customers have up to date, accurate information** to help with business planning;
- move customers' tax records onto one new system supporting wider improvements** now, and in the future, so **HMRC can deliver a better customer experience**; and
- make sure everyone pays the right amount of tax**, so that more money can go to funding public services, like the NHS, and supporting growth across the UK.

HMRC's strategic objectives



Collect the right tax and pay out the right financial support



Make it easy to get tax right and hard to bend or break the rules



Maintain taxpayers' consent through fair treatment and protect society from harm



Make HMRC a great place to work



Support wider government economic aims through a resilient, agile tax administration system

Making Tax Digital supports HMRC's Strategic goals and plans to digitalise the tax system.

Re-cap MTD VAT

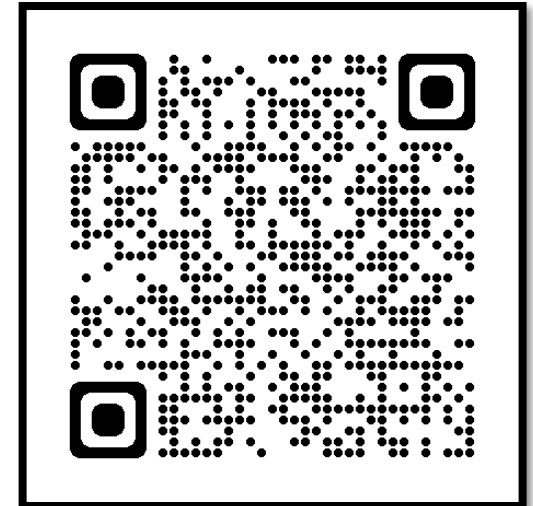
- MTD for VAT commenced for registered businesses above the VAT threshold in April 2019.
- Subsequently, those businesses below the VAT threshold came into MTD from April 2022.
- Therefore, the process of keeping digital records and submitting VAT returns using MTD compatible software is now the default way for all businesses to fulfil their VAT obligations.

MTD VAT - Agent feedback

*“Making Tax Digital for VAT **provided us a springboard to accelerate the adoption of online accounting software across our clients.***

It helped us introduce new services including daily bookkeeping and, in turn, our clients now have significantly more up to date financial information and can make better business decisions as a result”

- Owner Accountants Plymouth



Current Focus - Making Tax Digital for Income Tax

We want to build on the success of MTD VAT.

But we recognise that MTD for Income Tax is a bigger change

As such, we are working to continually improve and refine the design and process.

In doing so we have acted on feedback from Professional Bodies, and others.



**Making Tax Digital
for
Income Tax**

“You Said, We Did”

The Small Business Review (SBR) - 2023

- What can be done **within broad framework of Making Tax Digital.**
- Involved looking at design of process, and some outstanding policy issues.
- Involved over **35 separate organisations.**
- Very grateful for **significant input from across the tax profession.**



Changes to design of MTD from SBR

Cumulative quarterly updates

Support for 3-line accounts

Removing 'end of period statements'

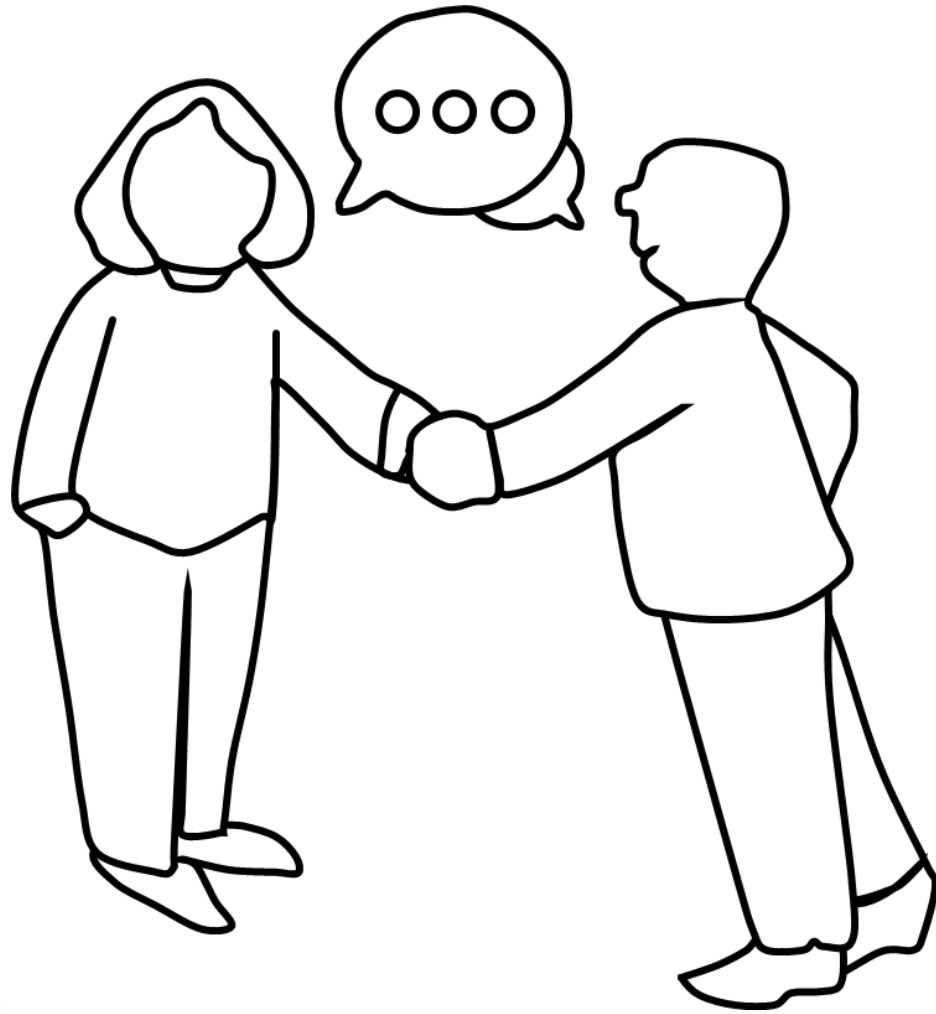
Joint property owners simplified reporting

Targeted exemptions (e.g. foster carers)

Multiple agent functionality

Aligning VAT & ITSA quarterly updates





Welcome

Lenny Barry

MTD Programme

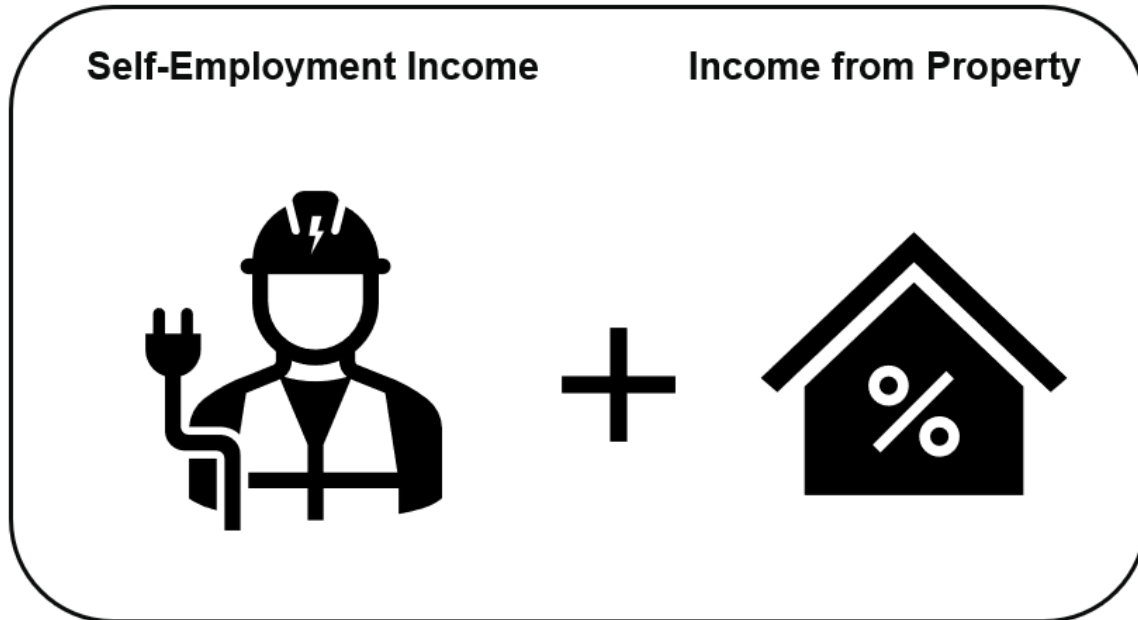




Making Tax Digital for Income Tax

Overview

MTD for Income Tax – Who?

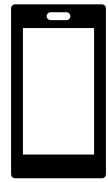


MTD mandation status considers income from Self Employment (unincorporated sole trader businesses) and Property **only** (largely the SA103/SA105).

Don't count employment income (PAYE), Dividends, Bank Interest etc. as they're NOT part of the mandation test (and can be reported annually).

It's income (turnover), not profit – and it's **the combined total** of Self Employment and Property income

Making Tax Digital for Income Tax on a page



Businesses keep digital records



Quarterly updates of income and expense sent to HMRC using software



Simplified end of year process supported by increased auto population

Voluntary throughout testing phase

Testing phase

April '26: over £50k

April '27: over £30k



What are “Quarterly Updates”

- Quarterly updates are **unadjusted summaries of Income and Expenses.**
- Every 3 months, MTD software will total the digital records and produce summaries for each income and expense category. These summaries are known as **MTD quarterly updates.**
- You’ll **submit these from software** each quarter with a **single button click.**
- **You do not need to make any accounting or tax adjustments before sending quarterly update**



Quarterly Updates - Tax Year Periods (Default)

Quarterly updates are to be provided in respect of incremental 3-month periods (same periods for everyone, irrespective of the accounting date)

Therefore, all MTD for Income Tax mandated taxpayers file to the same periods

7th at mandation

Q Start		Q End	Filing Due
6 April	➔	5 July	5 August
6 July	➔	5 October	5 November
6 October	➔	5 January	5 February
6 January	➔	5 April	5 May



Quarterly Updates - Calendar Quarters

Customers have an option to elect to file to “**Calendar Quarters**”
(rather than 6-5th month odd days)

7th at mandation

Q Start		Q End	Filing Due
1 April	➔	30 June	5 August
1 July	➔	30 September	5 November
1 October	➔	31 December	5 February
1 January	➔	31 March	5 May



A significant change for everyone

HMRC

**Software
industry**

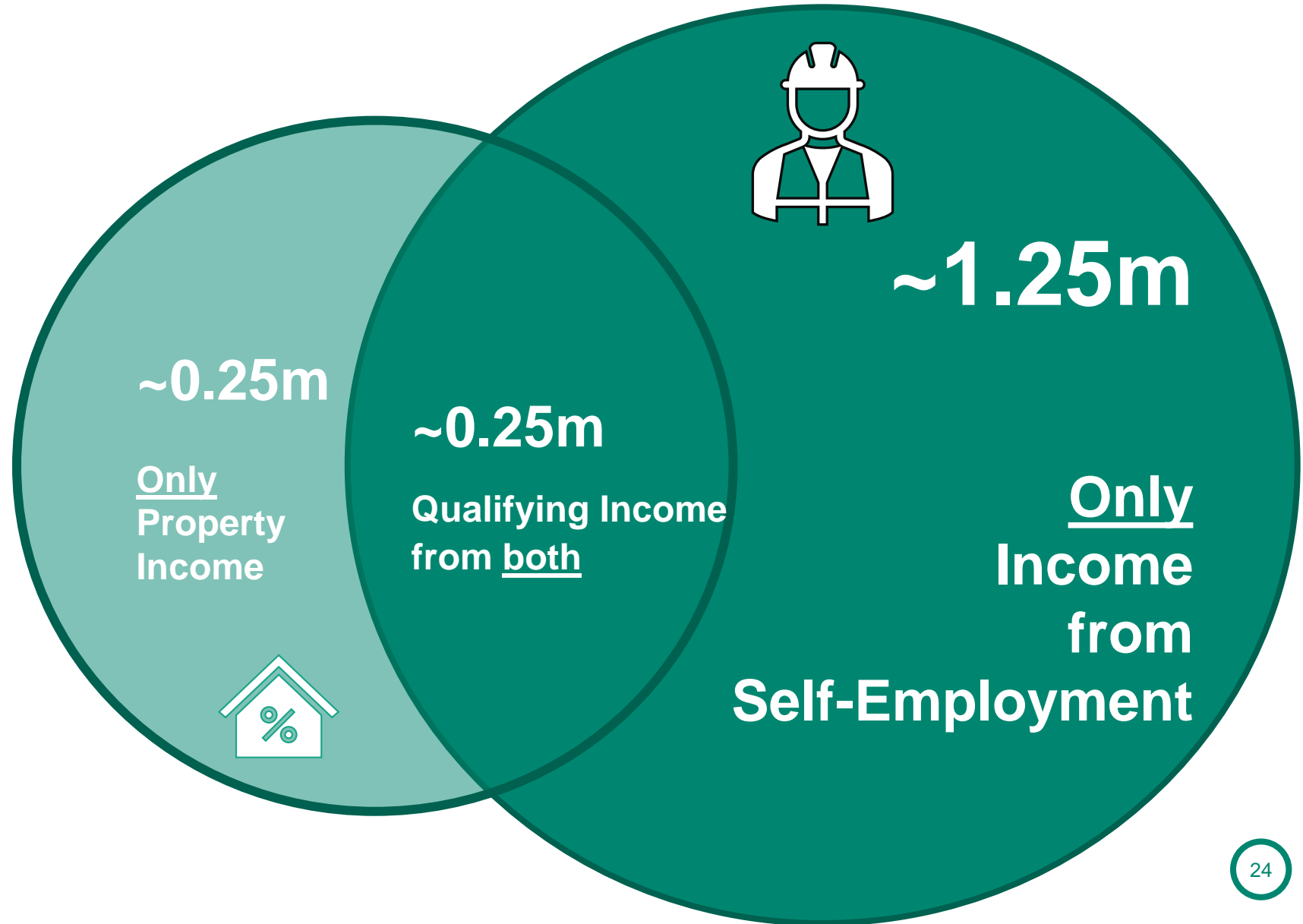
Agents

Taxpayers



Estimated ~1.75m Taxpayers

~69%
currently
have an
agent!



Digital Services & MTD

Enhance
Customer
Satisfaction

Reduce Error

Replace
Legacy
Technology

Making Tax Digital – Why?

**Customer
Satisfaction**

Today: moving to digital channels



145.5m



56.9m



Freeing resources for higher value work

3,000,000

Calls in 2022-23

Finding National
Insurance No.

Resetting / recovering
password

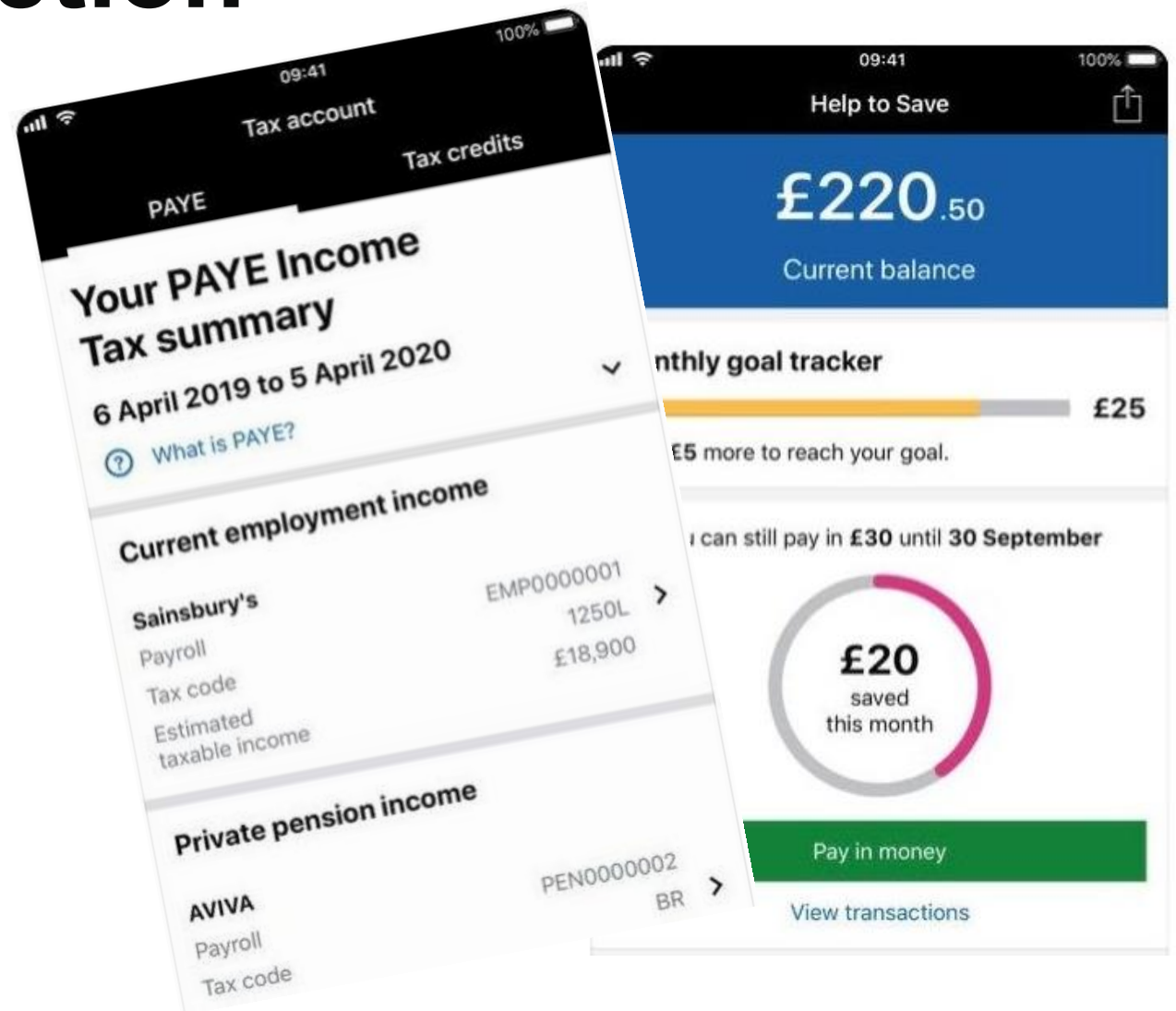
Accessing
employment history

All tasks that can be done online



Customer satisfaction

4.8



Quick wins – App “Pay by bank”

“Open Banking” is integrated with both **the HMRC App** and most banking apps. You can log into the HMRC app on using biometrics (touch/face etc). You can usually do the same for banking apps.

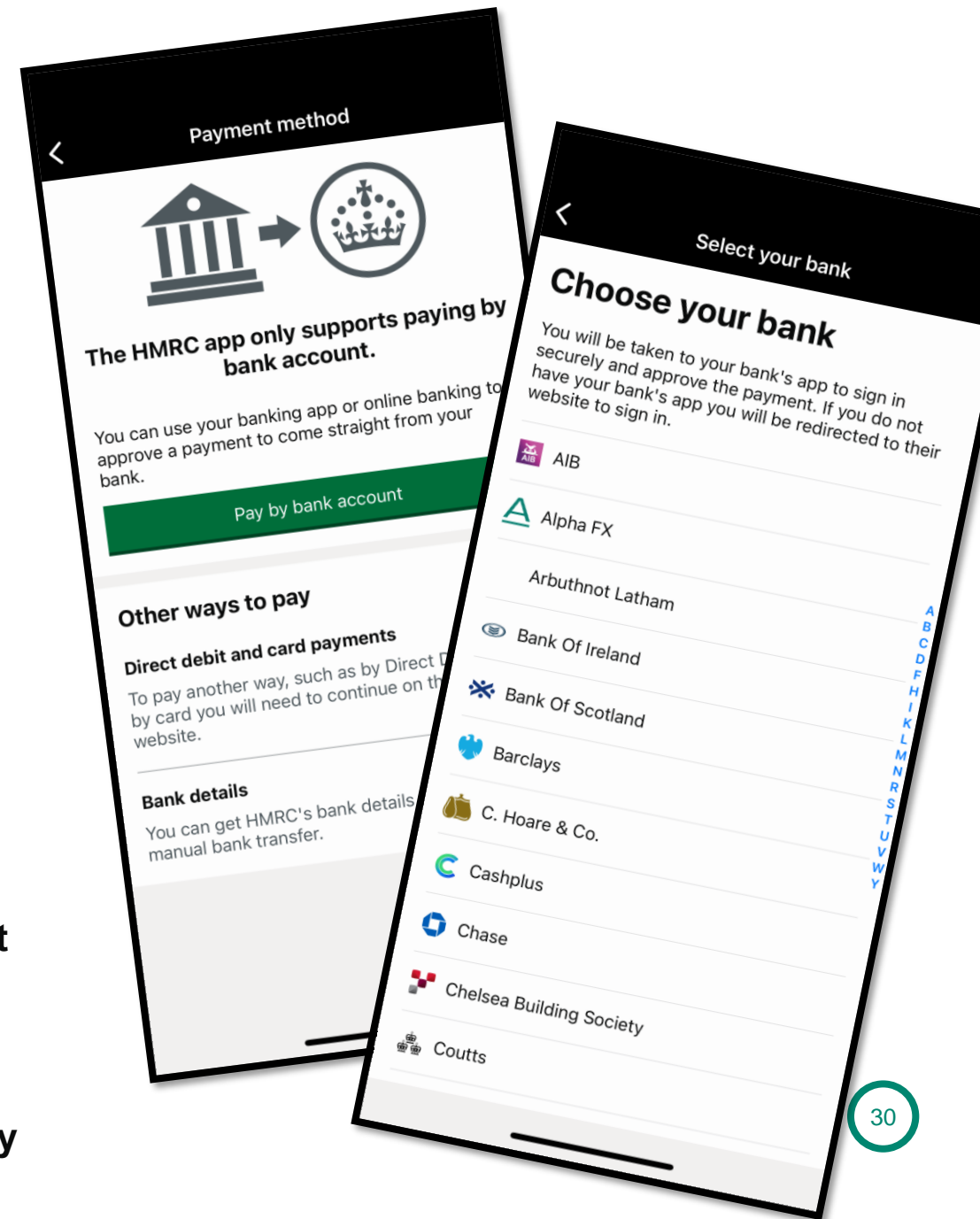
That means there’s **little/no need to go digging out passwords or payment references.**

When you hit pay in the HMRC app, it **automatically moves you to your banking app.**

The payment details are prepopulated so all you need to do is approve the payment ✓

So ‘Pay by Bank Account’ is...

- 1) Quick and easy
- 2) Secure and Direct – The payment is linked direct to the correct HMRC account and the debt auto allocated – no mis-posting
- 3) Admin free - no passwords, payment references or paperwork needed
- 4) Built on modern digital infrastructure & API services – The way the tax system should be!





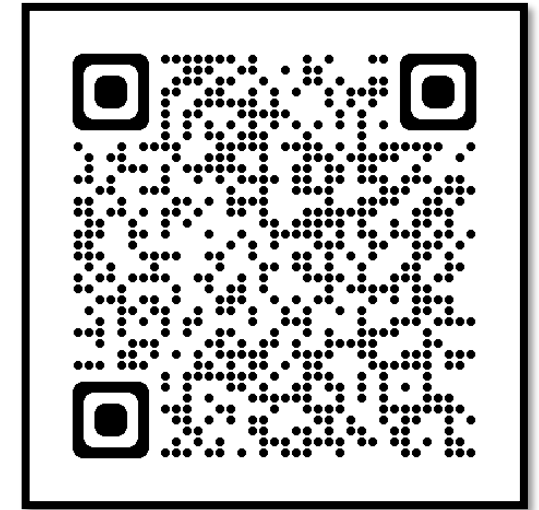
Making Tax Digital – Why?

Reduced Error

Getting tax right: the case for MTD

A significant share of the tax gap comes from error and poor record keeping (ftrc)

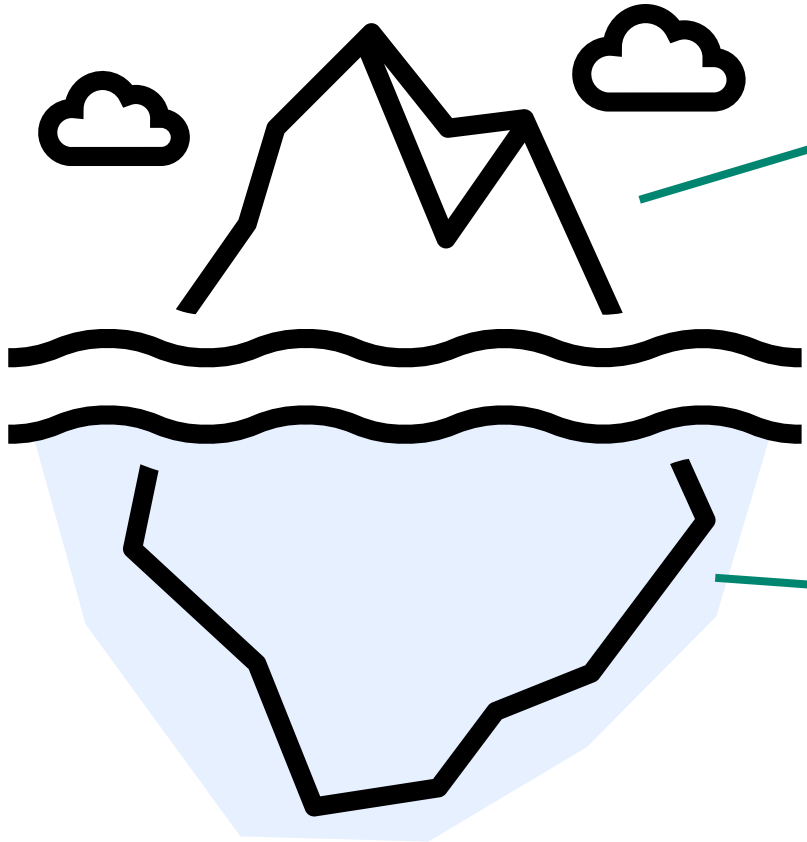
Aim of Making Tax Digital to improve record keeping and to assist closing tax gap



Tax Gap Publication Link



But there's more to MTD than that!



- Digital record keeping
- Quarterly updates
- Third Party Software

- New backend - Re-platforming
- More join up of customer data
- Build/cleanse/migrate data
- More pre-population
- New penalty regime

Replace Legacy
Technology

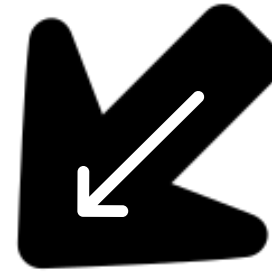
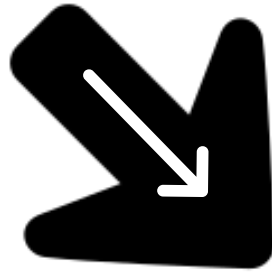


Making Tax Digital – How?

**Re-platform –
Rebuild, Migrate**

Consolidation – Modern, connected, flexible

Real Time
Information Feeds
(RTI), BiK, CIS etc

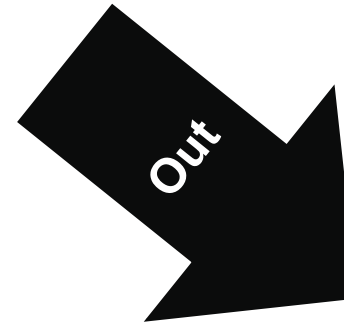
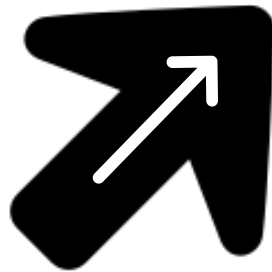


ETMP

Computerised
Environment for
Self-Assessment
(CESA)



VAT Main
Frame (VFM)



More joined
up view of
customer...

Data Item	MTD*	CESA **
CIS Tax deductions	✓	
Student loan plan type	✓	✓
Residency status i.e. RuK, Scottish, Welsh	✓	✓
PAYE Pay and Tax (employments & Occpen)	✓	✓***
Benefits in Kind data	✓	
Employment expenses	✓	
All state benefits (state pension, ESA, bereavement allowance, incapacity benefit, other state benefits)	✓	
State Pension (only)		✓
SA/PAYE coded underpayments	✓	
CGT PPD returns (credit for tax paid)	✓	

Auto populated

MTD ETMP service

Vs

Current SA CESA service

* HMRC auto populates the income tax calculation with this data. 3rd party software can use HMRC API's to see what HMRC holds for them and what will be used in the calculation by calling for the data at any time during the tax year.

** This data is Auto populated in CESA if using Legacy SA

*** Not within scope of MTD due to years involved.

Helpful “nudges and prompts”

Once on ETMP, HMRC can provide software developers with a tool that can offer **tailored “nudges and prompts”** to help customers **get things right, the first time.**

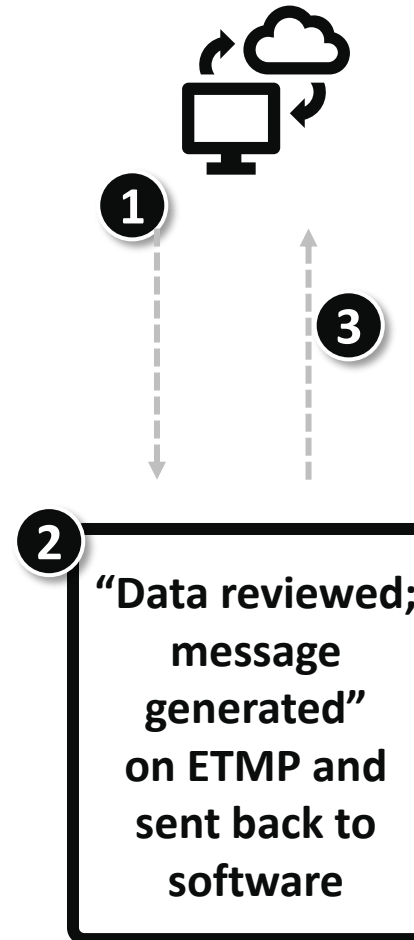
After submitting an in-year update, customers will be able to request feedback (where software supports this).

Feedback **will flag possible errors** or **nudge actions** the customer should consider.

Messages will also tell customers where they can find more information on GOV.UK to help them understand why HMRC thinks there may be an action to take.

Helpful messages can also **highlight to customers any tax reliefs and/or allowances they may be entitled to claim.**

3rd Party Software



Illustrative feedback*

⚠ You may need to register for VAT ⚠

The information provided suggests you may go over the VAT threshold

Action to take

You must register for VAT when you realise that your turnover is going to go over the limit in the next 30 days

Further guidance on when VAT registration is required and how to register is available below

[Register for VAT: When to register for VAT - GOV.UK \(www.gov.uk\)](https://www.gov.uk/government/guidance/register-for-vat-when-to-register-for-vat)

* Hypothetical wording subject to review

Making Tax Digital – How?

**New, Fairer
Penalty System**

MTD IT Penalty Reform – Legislate, Build, Implement

For MTD for Income Tax, there will be new:

1. **Late submission** penalties and
2. **Late payment** penalties.

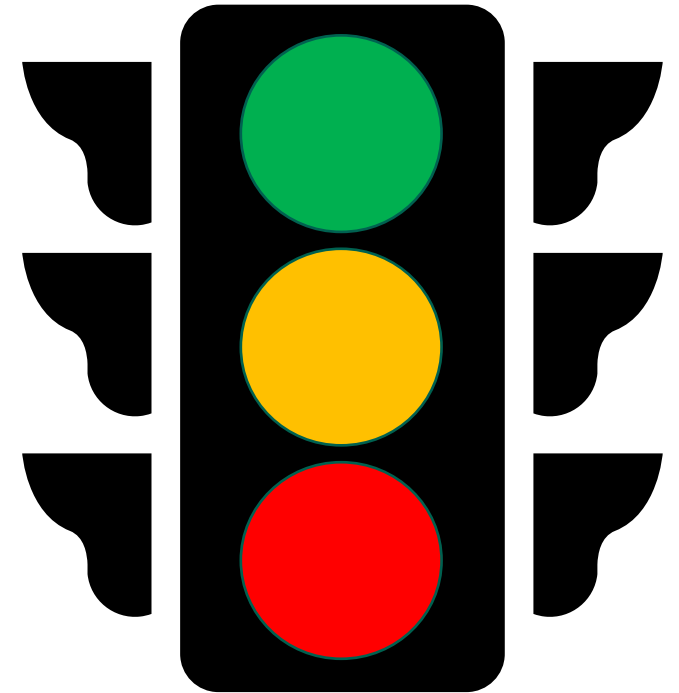
The changes aim to simplify late submission and late payment penalties, **making them fairer and more effective.**

Late submission penalties work on a points-based system.

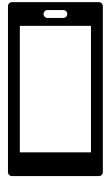
For each obligation you submit late you will receive a penalty point until you reach the **penalty point threshold – which will trigger a financial penalty.**

Late payment penalties are built around the idea that **the sooner you pay, the lower the penalty rate will be.**

If you are late paying your outstanding balance, a **first and second late payment penalty** will be issued at set times past the deadline, calculated on the tax you owe.



MTD and Third Party Software



Businesses keep records using appropriate compatible software



Quarterly updates sent from the software to HMRC





Getting Ready

MTD Testing Programme

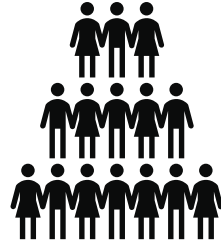
Making Tax Digital for Income Tax: Testing Timeline



24-25

PRIVATE TESTING PHASE

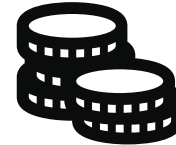
Focus on testing a **range** of customer journeys



25-26

PUBLIC TESTING PHASE

Gradually expand testing



26-27

MANDATION Over £50K

Taxpayers with MTD qualifying income of over £50k will need to have signed up to MTD by 6th April

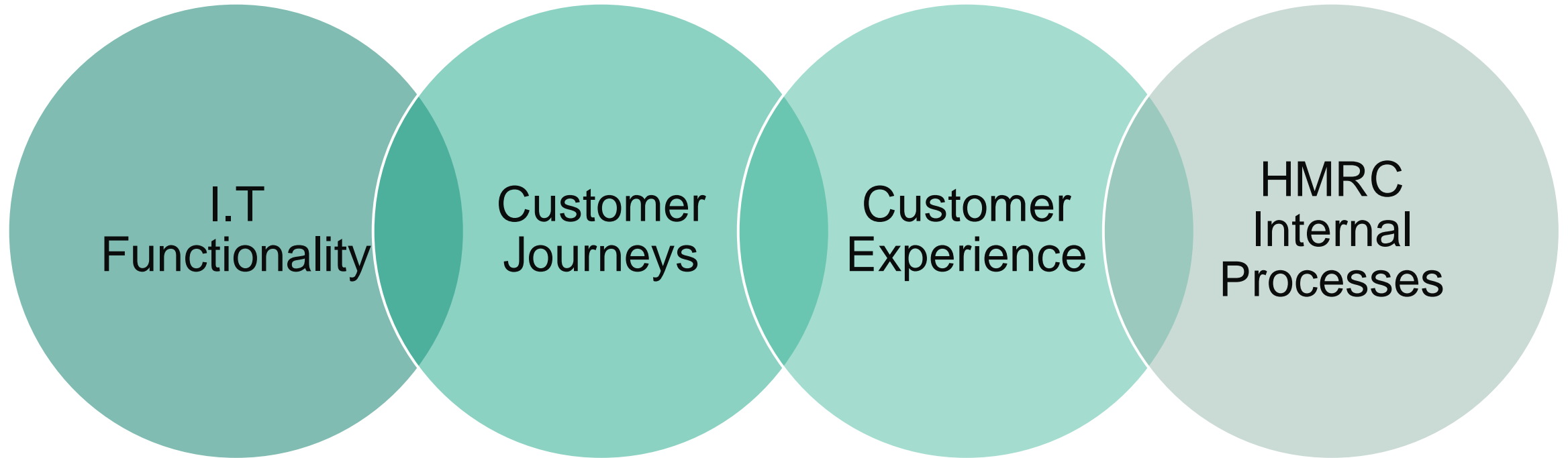


27-28

MANDATION Over £30K

Taxpayers with qualifying income of over £30k will need to have signed up to MTD by 6th April 2027

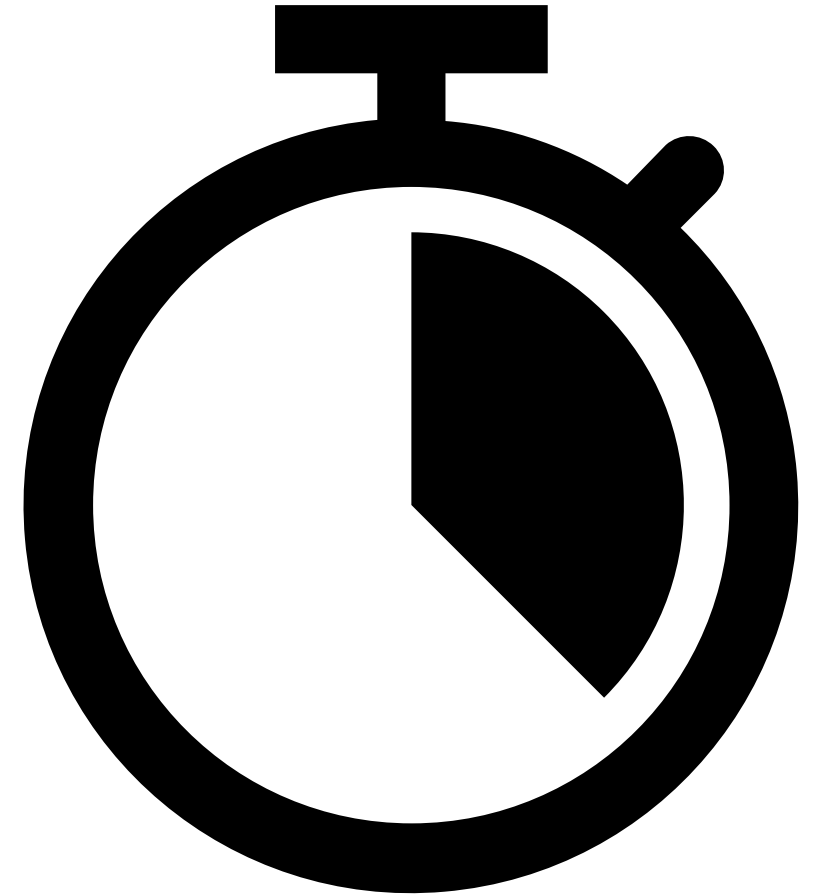
What we need to test



Early Access

=

**More time to plan
and transition**



Why you should join the Private Testing phase



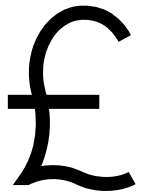
Mandation commences in April 2026, which is around 20 months away



The experience of the Private Testing phase will help you and your clients plan and transition



You will get the opportunity to help shape what MTD for ITSA looks and feels like.



No penalties for the quarterly updates during testing phases.



You get direct access to a dedicated customer support team

Who's eligible for MTD's 2024-25 Private Testing Phase

Must have



- National Insurance number
- Registered for SA & previously filed a return
- Have update to date account details
- Income from either sole trader or property (UK/foreign) or both
- Accounting period of
 - 6th April to 5th April

OR

- Accounting period of
 - 1st April to 31st March - Users must elect for calendar quarterly periods in software
- This change can only be made using software and must be made before making the first submission

Can have



- UK Dividends/Interest
- Charitable giving
- Employment/pension contributions & income
- Student Loan
- Capital Gains Disposal
- Construction Industry Scheme
- Class 2 voluntary payment
- Marriage Allowance
- Foreign income (inc. foreign property)

Can't yet have



- Partner income
- Minister of Religion/Lloyds Underwriter
- Member of Parliament
- Trust Income
- High Income Child Benefit Charge
- Blind Persons Allowance
- Married Couples Allowance
- Bankrupt/insolvent/voluntary arrangement
- Compliance enquiry
- Third party instructed to act other than agent
- Averaging adjustments
- Payment arrangement/debt collection
- Non resident
- Joint property ownership (easement)

Eligibility Checker @ start of Sign Up Journey

GOV.UK Making Tax Digital - Sign up for Income tax

Enter your client's details

We will try to match these details to information we have about your client.

First name

Last name

National Insurance number
For example, 'QQ 12 34 56 C'.

Date of birth
For example, 27 3 2007
Day Month Year

[Save and continue](#)

GOV.UK Making Tax Digital - Sign up for Income tax

Enter your client's details

We will try to match these details to information we have about your client.

First name

Last name

National Insurance number
For example, 'QQ 12 34 56 C'.

Date of birth
For example, 27 3 2007
Day Month Year

[Save and continue](#)

GOV.UK Making Tax Digital - Sign up for Income tax

[Back](#)

Check your answers

First name	Selina	Change
last name	Kyle	Change
National insurance number	QQ123456D	Change
Date of birth	11 2001	Change


[Continue](#)

[Clear data](#)
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GOV.UK Making Tax Digital - Sign up for Income tax

Selina Kyle | QQ123456D

Your client is eligible for Making Tax Digital for Income Tax



You can continue to sign up your client or check another client

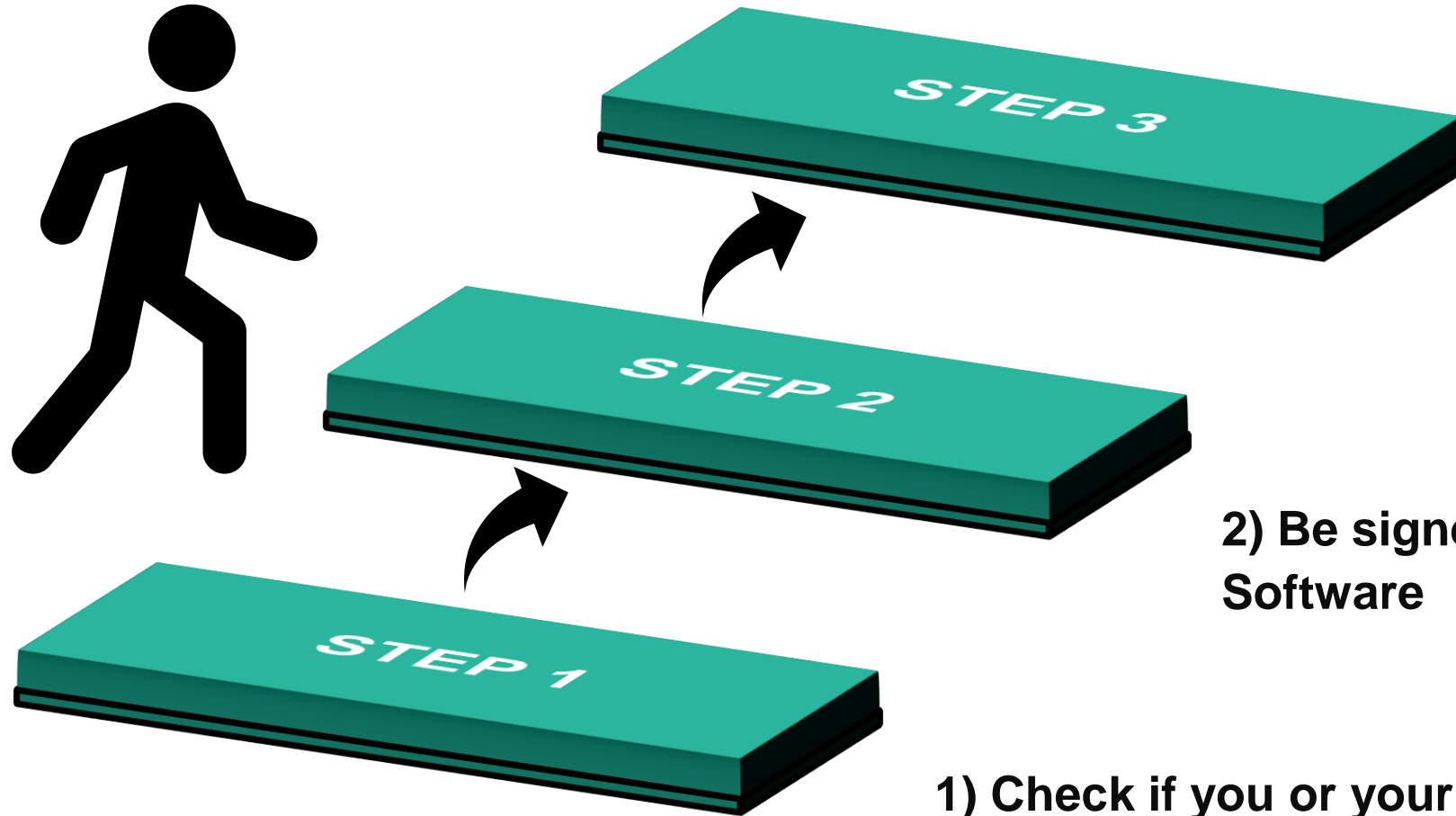
Yes, I would like to sign up Selina Kyle

No, I would like to check if another client is eligible

[Continue](#)

[Clear data](#)
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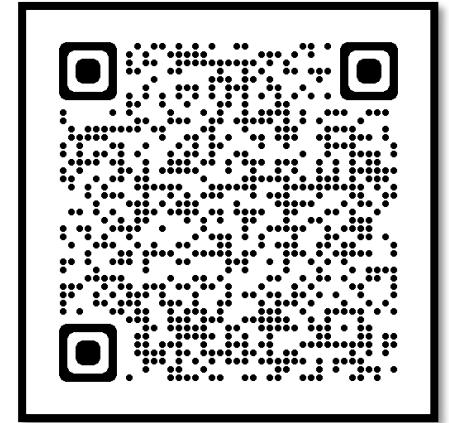
Sign up - Step by Step



1) Check if you or your clients are eligible via Gov.UK

2) Be signed up to 3rd Party Software

3) Sign up to the BETA via Gov.UK

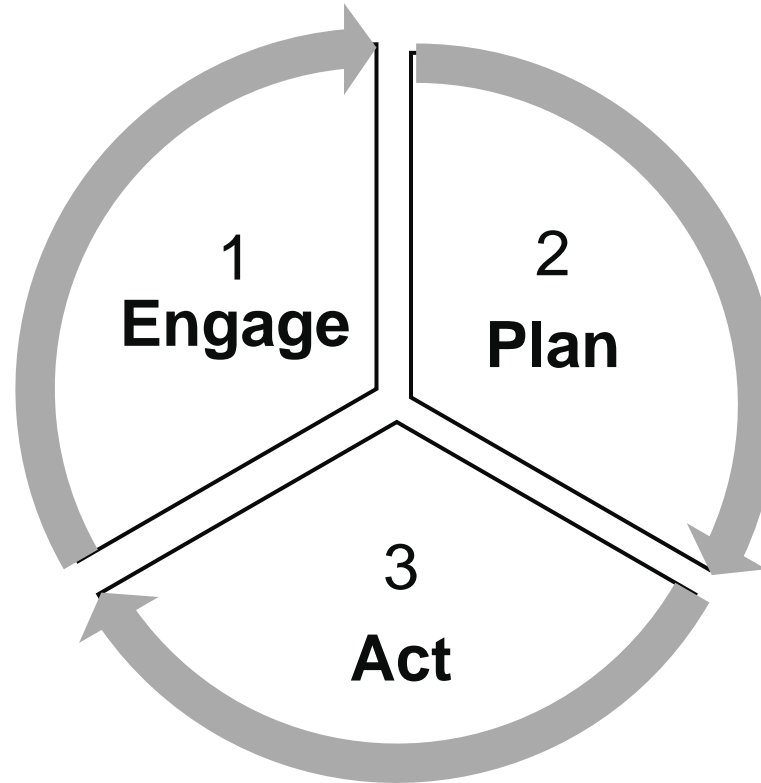


How can Agents Get Ready?

Read the guidance that is already available on [Making Tax Digital for Income Tax - GOV.UK \(www.gov.uk\)](#)

Subscribe to agent update, webinars and social media alerts

Read the advice from your professional body and developer



Analyse and segment your client base

Build transition, comms and education plans

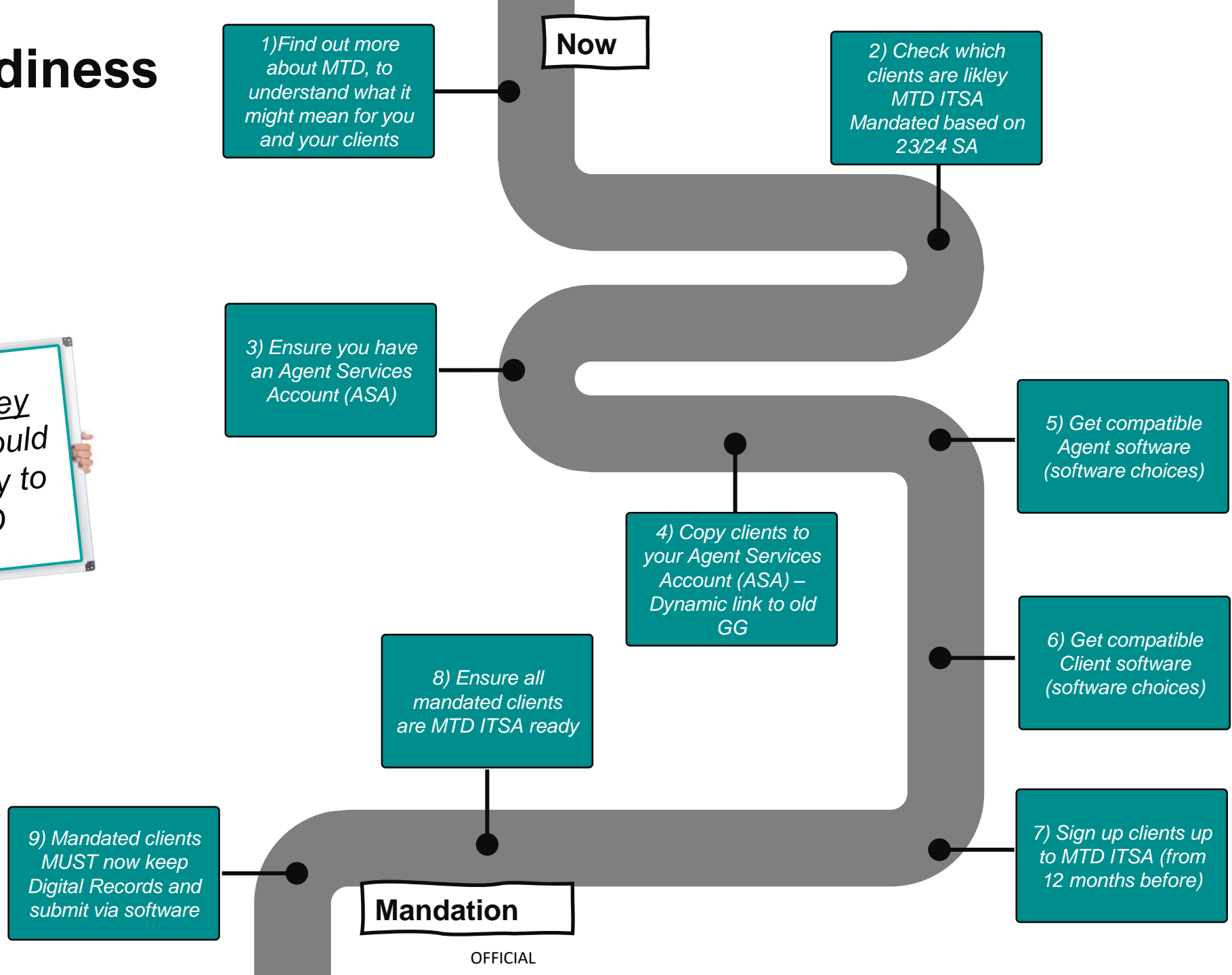
Align to and amplify HMRC communications

Create and link Agent Services Account

Transition to MTD ITSA Compatible Software

Join the Private Beta Testing

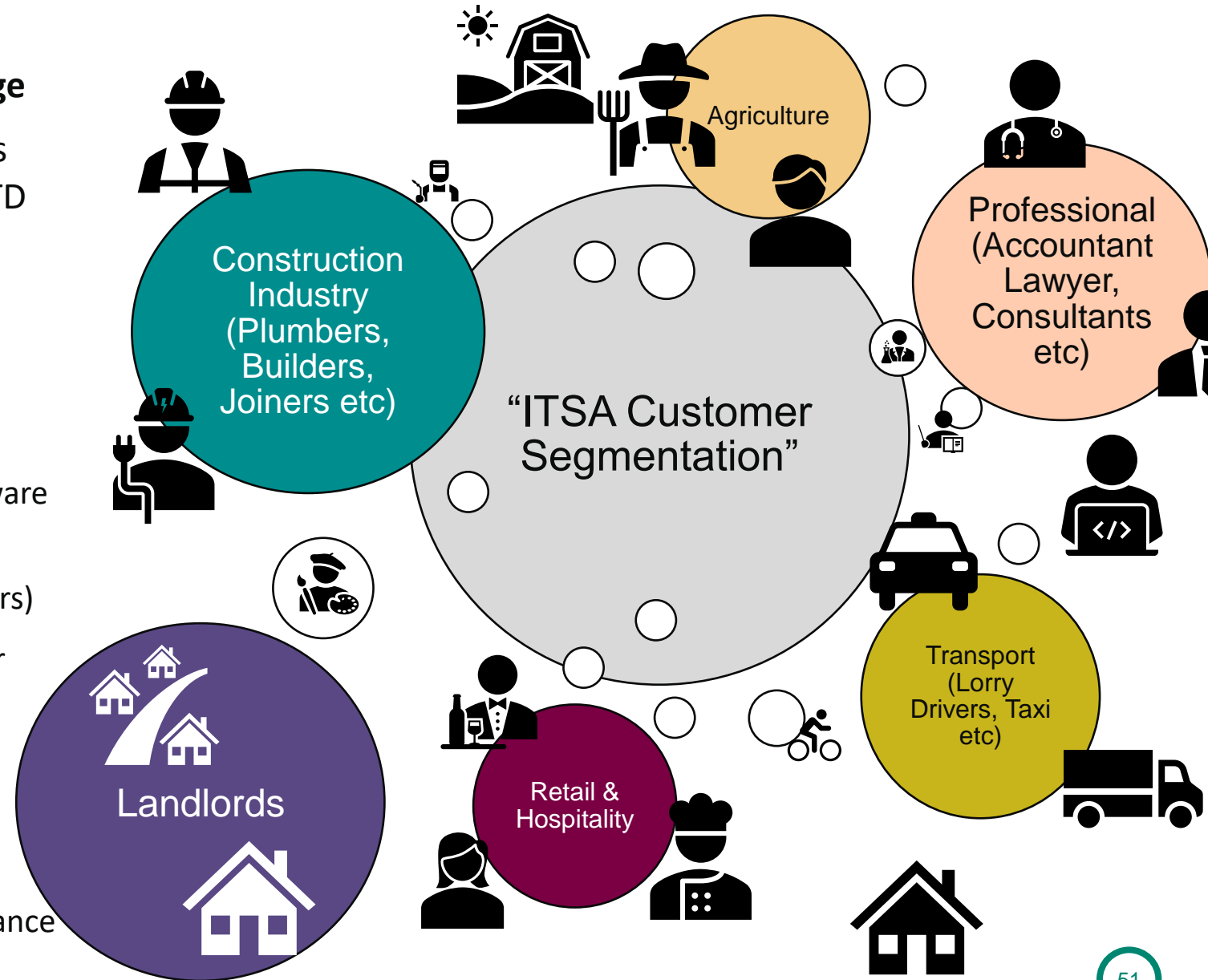
Agent Readiness



Client Segmentation

A segmentation exercise can help plan for change

- 1) List all clients - Identify Traders and Landlords and assess turnover levels to assess likely MTD status
- 2) Identify sub populations such as
 - Split the client base by industry sector
 - Clients already keeping digital records
 - Clients already using MTD compatible software
 - Identify VAT registered clients (as these will likely be good candidates for early volunteers)
 - Consider clients with multiple trades and/or properties – What software and support is needed?
- 3) Using this data, begin to impact the change for your firm – What changes will be required?
- 4) Consider any clients that may need additional assistance
- 5) Create a transition timetable and plan
- 5) Communicate changes and plans to clients



Summary

- We have covered a lot in the webinar.
- Hopefully, you have found the information helpful.
- We hope you will now consider signing up some of your clients to voluntary testing this year.

Your questions answered

A thick, black, horizontal brushstroke underline that spans the width of the text above it, with a slightly irregular, hand-painted appearance.

Further information and guidance

ICAS website: **[icas.com/professional-resources](https://www.icas.com/professional-resources)**

Technical Helpdesk: **Contact us on [icas.com](https://www.icas.com)**

X: **@ICASaccounting**

LinkedIn: **ICAS – The Professional Body of CAs**

What's coming up



Online

22 October Key employment tax cases: A year in review

24 October Advising partnership clients: Tax issues you need to be aware of

19 & 20
November CA Summit 2024

In person

8 October Beyond the Numbers

Register at
[icas.com/
events](https://www.icas.com/events)

